

# Memorandum

To: Panel Members Date: June 26, 2003

From: Diana Torres, Manager  
Peter DeMauro, General Counsel Analyst: R. Negrete

Subject: One-Step Agreement for **McLane Suneast, d.b.a. McLane Southern California (SET-HUA)**  
(www.mclaneco.com)

## **CONTRACTOR:**

- Training Project Profile: SET-Workers in High Unemployment Areas
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Services
- Repeat Contractor: No
- Contractor's Full Time Employees:
  - Company Wide: 15,000
  - In California: 364
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$134,277
- Substantial Contribution: \$0
- Total ETP Funding: \$134,277
- In-Kind Contribution: \$222,355
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Bernardino
- Duration of Agreement: 24 Months

**SUBCONTRACTORS:**

None

**THIRD PARTY SERVICES:**

Applicant representatives state that no third party services were used in the development of this Agreement.

**NARRATIVE:**

This proposal last came before the Panel for consideration at the December 2002 Panel meeting. McLane Suneast, d.b.a. McLane Southern California (McLane) is eligible under 22 CCR, Section 4409, Special Employment Training (SET) funds for High Unemployment Areas. In accordance with CCR, Section 4409(a)(5), McLane requested a waiver to the \$20.27 per hour SET frontline worker wage. 22 CCR, Section 4409(a)(5), states in part that,

“The Panel may waive the ETP minimum wage requirements, as provided in CUICC, Section 10201 (f), for frontline workers in high unemployment areas of the State, as defined in Section 4400 (ii).”

The Panel was concerned that the majority of the proposed frontline workers were at the standard ETP minimum hourly wage of \$11.15 for San Bernardino County. In addition, the Panel was concerned that 88 percent of the trainees received less than \$20.27, requiring a wage waiver to meet trainee eligibility. As a result of these concerns, the Panel did not approve the wage waiver request and the proposal was not approved. McLane was provided a determination letter from the ETP Assistant General Counsel on December 26, 2002, in which McLane was informed that the basis for the Panel’s decision was the quest to waive the SET minimum wage requirements. At the time the proposal was submitted, McLane was a subsidiary of Wal-Mart.

Subsequent to the December 2002 Panel meeting, Wal-Mart sold McLane to Berkshire Hathaway, Inc. On May 23, 2003, McLane became a wholly owned subsidiary of Berkshire Hathaway, Inc.

McLane is requesting reconsideration of its proposal based on recent changes in its company and a breakdown of proposed trainee wages. These factors are outlined later in this memorandum.

McLane proposes to train 313 frontline workers at its San Bernardino distribution facility under SET funding, which states, in part, that these projects are intended to improve the skills and employment security of frontline workers who earn at least the state average hourly wage, except for workers from high unemployment areas or with multiple barriers. SET projects are not subject to the out-of-state competition requirement. All of the proposed 313 retrainees meet 22 CCR, Section 4400(ee) definition of a frontline worker in accordance with SET funding.

**NARRATIVE:** (continued)

**Training in High Unemployment Areas (HUAs)**

In accordance with the enabling Legislation, the Panel may fund training of workers in regions with high unemployment. The Panel targeted a minimum of \$15 million in training funds to HUAs for Fiscal Year 2002-03. Training projects in HUAs may be approved under both the regular Economic Development category (i.e., retraining of incumbent workers of businesses challenged by out-of-state competition and training of unemployed workers for secure, well-paying jobs), and under the SET funding category. In addition, a goal in this year's Strategic Plan is to fund training to increase the skills and employability of the workforce in areas of high unemployment.

At the time of the initial application, the City of San Bernardino was determined as a definable area with an unemployment rate exceeding the state average unemployment rate by 25 percent or more based on information from the Employment Development Department's Labor Market Information Division. The City of San Bernardino's unemployment rate was 8.1 percent, and the state average unemployment rate was 6.4 percent.

McLane provides distribution services and delivers food and non-food products to more than 1,900 locations in Southern California, Arizona, Hawaii and Guam. Serviced industries include convenience stores, mass merchants, quick service restaurants, club stores, drug stores, movie theaters and other specialty retailers. According to company representatives, McLane is striving to be the low cost provider of its products and services as it competes with similar suppliers from within and outside California. In addition, McLane must constantly adapt to change as it undergoes price pressures with a growing customer shift toward lower priced products, improved product quality, timelier delivery schedules, and demands for Web-based access to all company services.

In 2002, McLane lost contracts totaling \$119.6 million to suppliers headquartered outside of California. To determine the reasons for the lost contracts, McLane conducted an internal audit that found that the company needed to improve customer service levels and support to customers. Ineffective customer service was found to be a contributing factor in losing the aforementioned contracts. For example customer service clerks were taking insufficient customer information, which led to re-ordering of products that had already been delivered. Internal communication problems between company departments resulted in incorrect orders, duplicate orders being processed, or inefficient follow-up to customer orders. Finally, inadequate communication between departments sometimes resulted in inadequate staffing in one department, while other departments were working overtime to fill customer orders.

The internal audit recommended that McLane streamline existing company operations to provide more efficient customer service and to reduce duplication of effort between company departments. In response to the internal audit findings, an initial customer service training program was implemented for a selected number of sales, driver and customer service staff. The results prompted McLane to develop a company-wide training program to adapt to a high performance workplace with a focus on improved customer service and improved communication between departments.

In addition, McLane customers are demanding Web-based access to all company services. A Web-based, e-commerce strategy is essential for continued success in the food distribution industry and will be part of the adaptation to a high performance workplace.

**NARRATIVE:** (continued)

McLane's e-commerce strategy consists of two elements: 1) enabling company clients to access all their company information and processes with relevant and timely information, and 2) enabling business-to-business e-commerce with Web-delivered information and applications.

McLane's ability to address operational deficiencies and move to a high performance workplace depends on its ability to create a highly skilled and flexible workforce to increase productivity, respond to customer quality demands and improve business techniques. To this end, McLane is requesting ETP training funds to assist with the implementation of a training plan designed to meet the aforementioned business and workforce needs.

McLane training staff developed a Menu Curriculum consisting of 24 - 40 hours (24 Class/Lab and 0 - 16 Computer-Based Training (CBT) training hours) in Business Skills, Computer Skills, and Continuous Improvement for the proposed 313 frontline employees.

**Business Skills** training will develop communication skills in administrative and production staff. Project management training will enable company employees to accomplish more complex projects with a higher degree of effectiveness. Sales techniques training for sales staff will emphasize the new sales and customer service models being developed to address business needs.

**Computer Skills** training will provide administrative and production employees the tools to use three in-house systems: an order processing system, Xata, and Telxon Credits. These applications allow McLane customers to have immediate access to their orders and accounts using the Internet. Additionally, multiple information systems are being replaced by these new multi-functional, multi-departmental systems. The new systems will create a streamlined, seamless approach to tracking, reporting, analyzing, transferring to and communicating information between internal and external customers. Corporate Information Technology (IT) employees will create e-commerce applications using Xata and Telxon Credits and will provide training to McLane retrainees in using these e-commerce systems.

**Continuous Improvement** training for administrative and production employees will include problem solving methodologies, leadership skills, total quality management and decision-making skills to promote team development. In addition, leadership skills training will enable production and administrative staff to make key decisions at the lowest level of the organization.

ETP-funded training will enable the company to adapt to a high performance workplace; become a customer-focused services provider; and implement an e-commerce strategy. McLane expects that ETP-funded training will result in a better-trained work force; increase positive customer service experiences; and increase its market share.

**Supplemental Nature of Training**

McLane has certified in writing that ETP-funded training is supplemental to training it provides in the normal course of doing business. To date, McLane's training has been restricted to job-required skills training. Company employees are typically provided approximately 30 hours of training per year in new-hire orientation, safety, job-specific skills training, and basic computer skills training. Most of the training is provided on the job. McLane's annual expenditures for company-funded training that will continue after ETP training is completed are projected at \$154,000 for: training materials development (\$12,000); development and facilitation of training (\$42,000); and employee wages during training (\$100,000).

**NARRATIVE:** (continued)

The proposed ETP-funded training is in addition to the company's current training and is designed to address new skill requirements related to adapting to a high performance workplace and the implementation of the company's Web-based e-business strategy. The training will address those two initiatives and provide retrainees with new job skills required for the company's successful implementation of its business strategies.

**In-Kind Contribution**

The total employer in-kind contribution is projected at \$222,355 for employee wages and fringe benefits paid during training.

**COMMENTS:**

**Wage Waiver**

In accordance with California Unemployment Insurance Code (CUIC), Section 10214.5, the Panel may waive the SET frontline worker minimum wage requirement for frontline workers in high unemployment areas of the state, as long as the trainees earn the standard ETP minimum wage inclusive of health benefits. The proposed 313 retrainees exceed the standard ETP minimum wage for regular funding of \$10.98 per hour for San Bernardino County (Calendar Year 2003).

According to McLane representatives, there has been a substantial increase in trainee wages in this revised proposal. In the December 2002 proposal, the 378 proposed trainees had a wage range of \$9.75 – \$39.61 per hour, and \$ .40 - \$1.75 in health benefits were going to be used to meet the ETP regular minimum wage of \$11.15 per hour. In this proposal the wage range for the 313 proposed trainees is \$11.10 - \$45.85. In addition, 58 (18.5 percent) of the 313 proposed trainees meet the Calendar Year 2003 ETP frontline worker wage of \$19.96 per hour, therefore, do not require a wage waiver. In addition, the Prevalent Wage for the currently proposed 313 trainees is \$14.95 per hour (exclusive of benefits), while the Prevalent Wage for the 378 trainees in the December 2002 proposal was \$11.15 per hour, including benefits.

**Less than 40 hours of training waiver request**

In re-submitting the current proposal after the sale of the company to Berkshire Hathaway, McLane training staff re-evaluated the proposed training plan. As a result of the re-evaluation, McLane made two necessary modifications to the training plan. McLane determined that a greater portion of the class/lab training could be delivered through Computer Based Training (CBT). This change will allow the training to be more operationally effective and allow the trainees control over their pace of learning. Secondly, the re-assessment showed that fewer trainees needed the ETP training. The targeted trainees under the revised training plan also need less hours of training to reach the company's stated goals.

McLane representatives state that, although some retrainees will receive less than 40 hours of class/lab and CBT training, the proposed number of training hours (24 - 40) will accomplish the company's goal of delivering new skills training to its frontline employees. Additionally, company representatives report that McLane will provide coaching and follow-up by company training staff to reinforce class/lab and CBT training to ensure proficiency in required job skills. Therefore, McLane requests a waiver of the 40 hour minimum training hour requirement in CCR Section 4400(y) to deliver its training plan of 24 - 40 hours of class/lab and CBT training.

**COMMENTS:** (continued)

**Less than 40 hours of training waiver request** (continued)

Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services that will ultimately be sold.

**PROPOSED ACTION:**

Staff recommends that the Panel approve McLane's two waiver requests and this One-Step Agreement under SET/HUA funding, if funds are available and the project meets Panel priorities. This proposal will ensure that McLane can provide its employees with skills to enable the company to adapt to a high performance workplace. ETP-funded training will allow company employees to implement the company's e-business strategy, provide excellent customer service, and enable it to remain viable in the California economy.

**TRAINING PLAN:**

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Hours	No. CBT Hours	Cost per Trainee	Hourly Wage after 90 days
Job Number 1  Retrainees	Menu Curriculum:  Business Skills Computer Skills Continuous Improvement	313	24	0 - 16	\$429	\$11.10 - \$45.85
						<b><u>Range of Hourly Wages</u></b>
						\$11.10 - \$45.85
						<b><u>Prevalent Hourly Wage</u></b>
						\$14.95
						<b><u>Average Cost per Trainee</u></b>
						\$429
<b><u>Health Benefits used to meet ETP minimum wage:</u></b>				<b><u>Turnover Rate</u></b>	<b><u>% of Managers to be trained</u></b>	
Although the company pays health benefits for its employees, the hourly contribution is not being used to meet the ETP minimum wage requirements.				17.3%	0%	

MCLANE SUNEAST  
d.b.a. MCLANE SOUTHERN CALIFORNIA  
MENU CURRICULUM

Hours  
Class/Lab

24

Trainees will be provided any of the following:

BUSINESS SKILLS

Listening/Communication Skills  
Customer Service Skills  
Sales Techniques  
Written Communication Skills

COMPUTER SKILLS

Windows Systems Support Programs  
Customer Relationship Management System  
Windows Operating System/Application Upgrade  
Web Based Products and Services  
- Xata Order System  
- Telxon Credit System

CONTINUOUS IMPROVEMENT

Problem Solving  
Team Building  
Leadership Skills  
Total Quality Management  
Decision-Making  
Motivation  
Coaching



MCLANE SUNEAST  
d.b.a. MCLANE SOUTHERN CALIFORNIA  
MENU CURRICULUM

CBT  
Hours

0 - 16

Trainees may complete any of the following:

BUSINESS SKILLS

Customer Service Skills

COMPUTER SKILLS

Windows Systems Support Programs

Customer Relationship Management System

Windows Operating System/Application Upgrade

CONTINUOUS IMPROVEMENT

Problem Solving

Leadership Skills

Total Quality Management

Decision-Making